# PRELIMINARY ANALYSIS OF SELECTED FOOD STAMP PROGRAM CHANGES PROPOSED IN THE PRESIDENT'S 1984 BUDGET

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# PRELIMINARY ANALYSIS OF SELECTED FOOD STAMP PROGRAM CHANGES PROPOSED IN THE PRESIDENT'S 1984 BUDGET

The Administration has proposed several changes in the Food Stamp program that would affect the levels of benefits received by participants. This memorandum--prepared at the request of the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition of the House Committee on Agriculture--presents a preliminary analysis of the effects of certain of these proposals on average benefit levels of all program participants and selected categories of participants.

In general, the proposed changes would result in an average benefit reduction in fiscal year 1984 for all food stamp households of $5.55 per month, or 4.9 percent of the benefit that would be expected under current policy. Some households, however, would gain under the proposal and some would lose.

This analysis presents estimates of the proportions of gainers and losers among recipient households, and the average amounts that would be gained or lost. It also includes a technical appendix describing an estimate of the effects of one of the proposed changes--eliminating the excess shelter deduction--on the rate and amount of benefit payments made in error.

## THE CURRENT PROGRAM

The Food Stamp program currently provides benefits of about $120 per month to 8 million households in the 50 states, the District of Columbia, Guam, and the Virgin Islands. To be eligible to participate, a household must have a net monthly income below 100 percent of the federal poverty level. Households without elderly or disabled members must meet the additional criterion that their gross monthly incomes not exceed 130 percent of the federal poverty level. Households must also meet resource tests and comply with work requirements to be eligible to participate.

Net income is gross monthly income less certain deductions. All households receive a "standard deduction," which currently is $85 per month in the 48 conterminous states and the District of Columbia. Households with earnings receive an earned income deduction equal to 18 percent of gross earnings. Households with dependent care expenses can deduct these expenses when they are necessary for a household member to accept or continue employment or training. The amount of the dependent care deduction is subject to a limit, currently $115 per month in the conterminous states and the District of Columbia. Households with elderly

or disabled members can deduct certain medical expenses incurred for those members to the extent that the expenses exceed $35 per month. The final deduction is the excess shelter deduction, which equals the amount to which allowable shelter costs exceed 50 percent of monthly household income after all other applicable deductions have been applied. For households with no elderly or disabled members, the combined total of the excess shelter deduction and the dependent care deduction is subject to a limit. That limit is currently $115 per month in the conterminous states and the District of Columbia. Annual cost-of-living adjustments for the deduction limits and the standard deduction are scheduled to begin in October 1983.

Food Stamp benefits are determined by subtracting 30 percent of the household's net income from maximum allotment levels. Maximum allotment levels are specific to each household size and are adjusted each October to reflect changes in food prices occurring during the 12-month period ending the preceding June. A minimum benefit level of $10 per month applies to households of one or two persons.

The cost to the federal government of the Food Stamp program is affected by economic conditions: levels of unemployment affect participation levels, while price changes, particularly food price changes, affect benefit levels. The Congressional Budget Office (CBO) estimates that the federal cost of the program if current policies are continued will be $11.4 billion in fiscal year 1984, rising to $13.0 billion in 1988 (see Table 1).

TABLE 1. CBO CURRENT POLICY BASELINE FOR THE FOOD STAMP PROGRAM (By fiscal year, in millions of dollars)

| | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| Budget Authority | 11,425 | 11,725 | 12,340 | 12,710 | 13,040 |
| Outlays | 11,425 | 11,720 | 12,335 | 12,705 | 13,035 |

SOURCE: Congressional Budget Office.

## THE ADMINISTRATION'S PROPOSALS

The proposed changes discussed in this memorandum are:

- Replacing the current earned income deduction with a fixed $75 monthly deduction for households with full-time workers and lesser amounts for households with part-time workers.

- Eliminating the excess shelter cost deduction.
- Increasing the standard deduction to $140 per month.
- Separating the dependent care deduction from other deductions and setting the maximum permanently at $115 per month.
- Revising the definition of household so that all persons living together would be considered as one food stamp household. An exception would be made for elderly persons who purchase and prepare food separately.
- Delaying for six months the cost-of-living adjustment currently scheduled to occur each October.

In addition, the Administration has proposed that states require most employable recipients to perform work in order to remain eligible for food stamps--the "community work experience" program, or workfare. States currently have the option to establish such programs. It has also proposed to limit the federal liability for erroneously issued benefits to 3 percent of the total issuance in each state. States with overpayment error rates in excess of 3 percent would be made responsible for the excess. This memorandum does not discuss these proposals, both of which would reduce federal Food Stamp program costs.

CBO estimates that the Administration's proposals would reduce federal spending on the Food Stamp program by about $1 billion in fiscal year 1984 and by about $5.4 billion over the 1984-1988 period (see Table 2). CBO has not yet, however, been provided with the proposed legislation covering these proposals. The estimates and descriptions in this analysis are based on current information and are therefore subject to later revision.

Change in the Earned Income Deduction

This proposal would change the current earned income deduction, which now equals 18 percent of gross earnings, to a fixed deduction of $75 per month for full-time workers and to a prorated deduction for part-time workers. This change would result in reduced benefits for households with earnings. Households with full-time workers would experience the greatest reductions. The savings to the Food Stamp program from this proposal are estimated to be $145 million in 1984 and $822 million over the five-year period.

For purposes of the estimates presented in this memorandum, it was assumed that a household had a full-time worker if household earnings equaled 30 or more hours when valued at the federal minimum wage. For

TABLE 2: ESTIMATED REDUCTIONS IN FOOD STAMP PROGRAM SPENDING RESULTING FROM CHANGES PROPOSED IN THE PRESIDENT'S BUDGET (By fiscal year, in millions of dollars) a/

| Proposed Change | 1984 | 1985 | 1986 | 1987 | 1988 | Cumulative Five-Year Savings |
|---|---|---|---|---|---|---|
| Change in the Earned Income Deduction | 145 | 153 | 165 | 175 | 184 | 822 |
| Changes in the Standard, Excess Shelter, and Dependent Care Deductions | 220 | 206 | 199 | 194 | 165 | 984 |
| Change in the Definition of Household | 55 | 70 | 70 | 70 | 70 | 335 |
| Six-Month COLA Delay | 105 | 390 | 465 | 345 | 305 | 1,610 |
| Mandatory Workfare | 20 | 20 | 20 | 20 | 20 | 100 |
| Error Rate Sanctions | 479 | 342 | 283 | 253 | 222 | 1,579 |
| Total | 1,024 | 1,181 | 1,202 | 1,057 | 966 | 5,430 |

SOURCE: Congressional Budget Office.

a/ Changes to budget authority equal changes in outlays.

households with earnings less than this full-time equivalent amount, the deduction was prorated according to the proportion of the full-time equivalent amount that their earnings represented.

The Administration proposes that the deduction for part-time workers be prorated using the method each state has adopted for use in its Aid to

Families with Dependent Children (AFDC) program. CBO does not have sufficient data to do a state-by-state analysis of the effects of this change. In most states, the deductions for part-time workers--whether sliding scales or fixed amounts are used--range between $37.50 and $50.00 per month. The method used here would result in higher deductions than from the AFDC procedures in some cases, and lower deductions in others.

About 19 percent of food stamp households have income from earnings and nearly half of these households have a full-time worker. The estimated average monthly benefit reduction for households with earnings would be $8.25, or 6.6 percent of the benefits that would be received under current policy.

The benefits of full-time workers would be reduced by an estimated average of $16.30 per month, or 12.8 percent of current policy benefits. It is estimated that more than 20 percent of full-time workers would experience benefit reductions in excess of $20 per month.

Part-time workers, as a group, would experience an estimated benefit reduction of less than $1.00 per month, which is less than 1 percent of current policy benefits. However, the benefit changes for households with part-time workers would vary widely depending upon the method of prorating the deduction adopted by individual states and the amount of earned income.

The estimates of savings from this proposal and the average effects cited above were made under the assumption that the excess shelter deduction would be eliminated. The estimated savings and average effects would be greater were the excess shelter deduction available as in current law. This is because a reduction in the earned income deduction would tend to reduce the excess shelter deduction, which would cause further benefit reductions.

Changes in the Excess Shelter, Dependent Care, and Standard Deductions

The Administration has proposed to eliminate the excess shelter deduction, permanently cap the dependent care deduction at $115 per month, and increase the standard deduction to $140 per month. The new standard deduction would be adjusted annually for price changes beginning in April 1984. These three changes were grouped together in estimating their effects on spending.

These proposals would result in increases in benefits for some households and reductions in benefits for others. The total amount of benefit reductions would exceed benefit increases, resulting in net savings of $220 million in 1984 and a five-year savings of $984 million.

Households most likely to gain from these proposals would be those that currently claim no excess shelter deduction. For them the changes would have the effect of increasing the standard deduction by about $50 per month, which translates into a monthly benefit increase of about $15. In August 1981, according to a survey conducted by the Department of Agriculture, nearly 31 percent of all Food Stamp households claimed no excess shelter deduction.

Households most likely to lose benefits would be those claiming an excess shelter deduction that exceeded $50 to $60 per month during fiscal year 1984, with the amount of loss growing with the level of excess shelter deduction that could be claimed under current law. In the survey cited above, about 30 percent of all households claimed an excess shelter deduction equal to or greater than the $115 monthly maximum. The maximum applies only to households with no elderly or disabled members. Households with excess shelter deductions at or exceeding the cap during fiscal year 1984 would experience benefit reductions of more than $20 monthly.

Table 3 summarizes the approximate effects of the proposed deduction changes on all households, households with an elderly or disabled member, households with earnings, households with public assistance income, and households with gross income below 50 percent of the poverty line. These categories are not mutually exclusive.

The first four rows of the table present the numbers of households, numbers of participants, and average benefits under current policy. These estimates are consistent with the 1984 CBO current policy baseline.

Rows 5, 6, and 7 of the table show estimates of the average benefit reductions resulting from the proposed changes. For all households, the average benefit loss is estimated to be $2.25 per month, or 2.0 percent of their benefits as determined under current policy.

As mentioned above, the elimination of the excess shelter deduction and the increase in the standard deduction cause a redistribution of benefits as well as an overall reduction in the average benefit level. Rows 8 through 17 of the table provide summary statistics on losers and gainers. For example, it is estimated that 44 percent of all households would experience benefit reductions averaging about $17.05 per month (13.2 percent of current policy benefits). An additional 41 percent would have increases in their monthly benefit averaging $12.65 per month (13.6 percent of current policy benefits) and 15 percent of all households would experience no change. The latter group consists of households receiving the minimum or maximum benefit levels, which would not be affected by changes in deductions.

TABLE 3. ESTIMATED EFFECTS ON FOOD STAMP BENEFIT LEVELS RESULTING FROM PROPOSED CHANGES IN THE EXCESS SHELTER, DEPENDENT CARE, AND STANDARD DEDUCTIONS, FISCAL YEAR 1984

| | All Households | Households with Elderly or Disabled Members a/ | Households with Earnings b/ | Households with Public Assistance Income c/ | Households with Gross Incomes Below 50% of Poverty d/ |
|---|---|---|---|---|---|
| Households (millions) | 7.9 | 2.31 | 1.47 | 3.98 | 2.49 |
| Participants (millions) | 21.20 | 4.13 | 5.48 | 12.34 | 6.82 |
| Current Policy | | | | | |
| Benefit/Household ($/mo.) | 112.40 | 59.55 | 123.95 | 133.25 | 163.35 |
| Benefit/Person ($/mo.) | 41.90 | 33.30 | 33.20 | 43.00 | 59.70 |
| Average Benefit Change | | | | | |
| Per Household ($/mo.) | -2.25 | -2.60 | 3.05 | -3.55 | -2.20 |
| Per Participant ($/mo.) | -0.85 | -1.45 | 0.80 | -1.15 | -0.80 |
| Percent Change | -2.0 | -4.3 | 2.5 | -2.6 | -1.3 |
| Distribution of Changes | | | | | |
| Benefit Reductions | | | | | |
| Percent of Category | 44 | 39 | 34 | 54 | 36 |
| Households (millions) | 3.47 | 0.91 | 0.49 | 2.14 | 0.90 |
| Average Reduction ($/mo.) | -17.05 | -22.35 | -15.70 | -16.20 | -13.30 |
| Percent Change | -13.2 | -29.4 | -10.8 | -11.1 | -6.7 |
| Benefit Increases | | | | | |
| Percent of Category | 41 | 52 | 58 | 40 | 24 |
| Households (millions) | 3.25 | 1.19 | 0.85 | 1.58 | 0.59 |
| Average Increase ($/mo.) | 12.65 | 12.00 | 14.40 | 13.00 | 11.00 |
| Percent Change | 13.6 | 23.6 | 12.8 | 10.9 | 7.0 |
| No Change | | | | | |
| Percent of Category | 15 | 9 | 8 | 6 | 40 |
| Households (millions) | 1.19 | 0.21 | 0.12 | 0.26 | 1.01 |

SOURCE: Congressional Budget Office analysis primarily based on data from the Survey of Characteristics of Food Stamp Households: August 1981.

a/ Households with at least one member age 60 or more or receiving Supplemental Security Income.

b/ Earnings include wages, salaries, self-employment, and farm income.

c/ Public assistance includes benefits from Aid to Families with Dependent Children and General Assistance programs.

d/ The 1983-1984 poverty line for a four-person household is $9,900 per year, or $825 per month.

On average, the only category of household not experiencing benefit reductions would be those with earned income. About 40 percent of households with earnings claim no excess shelter deduction, and the average amount of the deduction for those that do qualify for it is low relative to the average for other categories of households. When compared to other categories, households with earnings stand to gain the most and lose the least from this subset of the proposed changes.

Among households losing benefits, the largest estimated monthly reduction would be for those with elderly or disabled members. Households with elderly or disabled members stand to lose the most from elimination of the excess shelter deduction because they are not currently subject to the deduction cap that applies to other households. In the August 1981 survey sample, 20.8 percent of households with elderly or disabled members claimed excess shelter deductions in excess of the $115 maximum that applied to other households at that time.

Among households losing benefits, those losing least would be households with incomes below 50 percent of the poverty line.

Among households with increases in benefits, households with earnings would have the greatest average increase. They would also have the greatest proportion of gainers. Slightly over half of households with elderly or disabled members would receive increases, while only 24 percent of households with incomes below 50 percent of the poverty line would benefit from these proposals.

About 15 percent of all households would experience no change in benefits as a result of these deduction changes. Most of this group, nearly 85 percent are households with very low incomes that are likely to be receiving the maximum monthly benefit and thus not to be affected by changes in deductions.

Delay of the Cost-of-Living Adjustment

The maximum benefit levels for households of different sizes, which are determined in relation to an adjusted value of the Department of Agriculture's Thrifty Food Plan, are currently changed each October. The Administration's proposal would delay the October 1983 change until April 1984. Subsequent changes would also be made in April rather than October.

CBO projects that under existing law the maximum monthly allotment level for a four-person household would increase in October 1983 from the current $253 to $256. This relatively small increase of slightly more than 1 percent reflects the modest increases in food prices expected

between June 1982 and June 1983, the period over which the cost-of-living adjustment (COLA) is determined. Projected adjustments in later years are based upon the assumption that annual increases in food prices will be in the 4 to 5 percent range.

The Administration's proposal would delay the COLA increase by six months, thus reducing benefits relative to those under current law for the first six months of each fiscal year. All households would be affected except those receiving the minimum benefit. Larger households would lose more than smaller households. The average benefit reduction would be about $2.25 a month per household in the six-month period during which this provision would affect benefits.

Savings from this proposal are estimated to be $105 million in fiscal year 1984 and about $1.6 billion over the 1984-1988 period.

Change in the Definition of Household

The Administration's proposal would require that all persons living together be considered as a single food stamp household. Elderly persons would be exempt from the requirement if they could demonstrate that they purchased food and prepared meals separately. Current law allows unrelated persons, elderly and disabled persons (except spouses), and nonsibling relatives living together to participate as separate households if they can prove that they purchase food and prepare meals separately.

Benefit payments would be reduced as a result of this change because households that now participate separately would be consolidated. Thus, only one rather than two standard deductions could be used in calculating benefits. In addition, the economy-of-scale factors used in determining maximum benefits would result in smaller per person maximum benefits for large households than for small households. In some cases, eligibility would be lost because counting the income of all persons living together would result in household income exceeding 130 percent of the poverty line.

The estimated savings from this proposal are $55 million in fiscal year 1984 and $335 million over the five-year period. This estimate is based on an Administration analysis of data from the 1979 research panel of the Income Survey Development Program. These data allow the identification of food stamp households within larger census dwelling units. It is estimated from these data that 130,000 to 150,000 households would be affected by the proposal.

## SELECTED DISTRIBUTIONAL EFFECTS OF THE ADMINISTRATION'S PROPOSED CHANGES

The average monthly benefit reduction among all food stamp households resulting from the Administration's proposals is estimated to be $5.55, or 4.9 percent of benefits that would be received under current policy, as displayed in Table 4. This table shows estimates of the effects of all the deduction changes, the COLA delay, and the change in the definition of household on the same categories of households as contained in Table 3.

Before the distributional effects are examined, however, certain notes should be made about Table 4. Data from the 1981 survey of characteristics of food stamp households were used to estimate effects of all deduction changes and the COLA delay. For purposes of this analysis it was assumed that the effects of the change in the household definition would be evenly distributed among household types other than households containing elderly or disabled members. Available data do not allow a more accurate distribution of the effects of this change. The effect of the COLA delay, which only affects benefits for the first six months of the fiscal year, is included as an average effect for the year. Also, as mentioned above, benefit changes for part-time workers were calculated by assuming that the $75 standard earned income deduction would be prorated according to the proportion that household earnings represented of the full-time equivalent amount. If states were to adopt their current practices for determining this deduction for part-time workers in their AFDC programs, the distribution of benefit changes for households with part-time workers would differ somewhat from that used as the basis for construction of this table.

Of the categories of households included in Table 4, households with earnings show the greatest loss per household but a smaller than average amount per person. The smallest average reduction per household is among those with elderly or disabled members, and the smallest average reduction per participant is among households with gross income below 50 percent of the poverty line.

Sixty-two percent of all food stamp households would lose benefits as a result of the Administration's proposals. Among households losing benefits, those with elderly or disabled members would experience the greatest average benefit reduction, nearly $21.00 per month, or 26.3 percent of current policy benefits. Benefit losses would occur with less frequency (44 percent) among these households than among all households together. The lowest average benefit reduction among households losing benefits would occur among those with income below 50 percent of the poverty line. But the proportion of this group experiencing benefit losses (79 percent) would be well above that for the other categories.

TABLE 4. ESTIMATED EFFECTS ON FOOD STAMP BENEFIT LEVELS RESULTING FROM PROPOSED CHANGES IN THE EXCESS SHELTER, DEPENDENT CARE, AND STANDARD DEDUCTIONS, EARNED INCOME DEDUCTION, HOUSEHOLD DEFINITION, AND COST-OF-LIVING ADJUSTMENT SCHEDULE, FISCAL YEAR 1984

| | All Households | Households with Elderly or Disabled Members a/ | Households with Earnings b/ | Households with Public Assistance Income c/ | Households with Gross Incomes Below 50% of Poverty d/ |
|---|---|---|---|---|---|
| Households (millions) | 7.90 | 2.31 | 1.47 | 3.98 | 2.49 |
| Participants (millions) | 21.20 | 4.13 | 5.48 | 12.34 | 6.82 |
| Current Policy | | | | | |
| Benefit/Household ($/mo.) | 112.40 | 59.55 | 123.95 | 133.25 | 163.35 |
| Benefit/Person ($/mo.) | 41.90 | 33.30 | 33.20 | 43.00 | 59.70 |
| Average Benefit Change | | | | | |
| Per Household ($/mo.) | -5.55 | -3.55 | -7.35 | -6.20 | -4.25 |
| Per Participant ($/mo.) | -2.05 | -2.00 | -1.95 | -2.00 | -1.55 |
| Percent Change | -4.9 | -6.0 | -5.9 | -4.7 | -2.6 |
| Distribution of Changes | | | | | |
| Benefit Reductions | | | | | |
| Percent of Category | 62 | 44 | 64 | 64 | 79 |
| Households (millions) | 4.92 | 1.01 | 0.94 | 2.54 | 1.96 |
| Average Reduction ($/mo.) | -14.80 | -20.90 | -16.15 | -15.90 | -8.05 |
| Percent Change | -11.4 | -26.3 | -11.8 | -11.1 | -4.9 |
| Benefit Increases | | | | | |
| Percent of Category | 35 | 50 | 35 | 36 | 21 |
| Households (millions) | 2.80 | 1.15 | 0.51 | 1.43 | 0.53 |
| Average Increase ($/mo.) | 10.45 | 11.05 | 8.30 | 10.95 | 9.75 |
| Percent Change | 11.8 | 22.7 | 7.8 | 9.3 | 6.2 |
| No Change | | | | | |
| Percent of Category | 2 | 7 | 1 | * e/ | * |
| Households (millions) | 0.18 | 0.15 | 0.02 | * | * |

SOURCE: Congressional Budget Office analysis primarily based on data from the Survey of Characteristics of Food Stamp Households: August 1981.

a/ Households with at least one member age 60 or more or receiving Supplemental Security Income.

b/ Earnings include wages, salaries, self-employment, and farm income.

c/ Public assistance includes benefits from Aid to Families with Dependent Children and General Assistance programs.

d/ The 1983-1984 poverty line for a four-person household is $9,900 per year, or $825 per month.

e/ Not significant.

About 35 percent of all households would have increased benefits. Among households with elderly or disabled members, 50 percent would receive benefit increases averaging $11.05 per month, an increase of 22.7 percent. This is both the highest proportion of households with benefit increases among the categories and the largest average benefit increase. A relatively small proportion of households with incomes below 50 percent of the poverty line would have benefit increases. As mentioned previously, many households in this category now receive the maximum benefit and would not be affected by the increase in the standard deduction.

Few households would experience no change in benefit levels. A number of those who would have no benefit change as a result of the changes in the standard deduction, the excess shelter deduction, and the child care deduction (as shown above in Table 3) would be affected primarily by the COLA delay and would experience benefit losses for half of each year. This is particularly the case for those with incomes below 50 percent of poverty.

## TECHNICAL APPENDIX

### Estimated Effect of Proposed Deduction Changes on the Food Stamp Program Error Rate

This section discusses the effects of the proposal to eliminate the excess shelter deduction on the error rate. First, an estimate of the effects of this change on the measured overpayment error rate is discussed. The observed overpayment error rate affects sanctions imposed on states either under current law or under a proposed change in the sanction system included in the President's budget. The second item of discussion is an estimate of the change in the level of benefit payments made in error that would result from eliminating the excess shelter deduction. While any change in eligibility or benefit determination procedures may affect error rates by increasing or decreasing administrative difficulties, the elimination of this relatively complex deduction is the only such change in the current set of proposals that is expected to have a significant effect on payments made in error.

CBO estimates that the elimination of the excess shelter deduction would reduce the measured overpayment error rate by about 5 percent. Had this proposal been in effect during the April-to-September 1981 quality control reporting period, for example, when overpayments resulting from overissuances and payments to ineligible households totaled 9.75 percent of benefits, the error rate would more likely have been about 9.25 percent of benefits.

Information associating amounts of overpayment errors with specific causes is no longer routinely collected during the quality control review process. The estimate of the effect cited above was derived using the following information:

- In the most recent reporting period for which error rate data have been released--April to September 1981--33.9 percent of all variances observed were associated with deductions. A variance is recorded when information verified by the reviewer differs from that used in the determination of benefits or when a policy relating to eligibility has been misapplied. A variance does not necessarily mean that a case is in error, and more than one variance per case may be recorded.

- Before development of the current quality control review system, causes of errors were assigned to cases. The incidence of causes

of error, and the dollar amount associated with each, were reported. During the January-to-June 1978 reporting period, 35.8 percent of all case errors were attributed to deductions. These deduction errors accounted for 15.3 percent of all overissued benefits.

This was before the implementation of provisions of the Food Stamp Act of 1977 which replaced a number of itemized deductions with a standard deduction. This reduced the opportunity for committing errors associated with deductions. The 1978 statistics thus probably overstate the current percentage of case errors and benefit errors associated with deductions, but these figures are used for lack of more recent information.

- As mentioned above, the recording of a variance for a case under review does not necessarily mean that an overpayment occurred. For the excess shelter deduction, errors in reporting shelter costs or in calculating the excess shelter deduction would, in a significant number of cases, be expected to have no effect on benefit payments. For example, any household subject to the maximum excess shelter deduction that has a calculated deduction in excess of this cap could have an error that would affect the calculated deduction but would not affect the deduction claimed or, in turn, household benefits. Other households might report excess shelter costs but not have shelter costs large enough relative to their income to be able to claim the excess shelter deduction; in such instances, errors in reporting shelter expenses would also tend to have no effect on benefit payments. Other categories of households for which an error in reporting shelter costs or in calculating the excess shelter deduction would tend to have no effect on benefits include those receiving the maximum or minimum benefits.

  An analysis of the August 1981 survey of characteristics of food stamp households shows that about 37 percent of all households (41 percent of those reporting shelter costs) had positive but uncapped shelter deductions and received benefits at levels other than the maximum or minimum. For these households, an erroneous change in the excess shelter deduction would clearly have an effect on benefit payments. Among other households, effects on benefits of an error associated with the shelter deduction would be far less likely and, when they occurred, would tend to be smaller.

The following assumptions were made for the purposes of the estimate:

- Of all deduction variances observed, 80 to 90 percent are due to errors in reporting shelter costs or in calculating the excess shelter deduction. About 90 percent of all households report shelter costs, and the excess shelter deduction is claimed by far more households than any other nonstandard deduction.

- The magnitudes of the errors in reporting shelter costs or calculating the excess shelter deduction are distributed uniformly across households reporting shelter costs.

The calculation of a range of estimates of the effect of eliminating the excess shelter deduction on the overpayment error is shown in Table 5.

TABLE 5. ESTIMATES OF THE EFFECTS OF ELIMINATING THE EXCESS SHELTER DEDUCTION ON THE OVERPAYMENT ERROR RATE IN THE FOOD STAMP PROGRAM

| | | |
|---|---|---|
| Percent of all variances due to deductions | 33.9 | 33.9 |
| Assumed proportion of deduction variances due to excess shelter deduction | 0.8 | 0.9 |
| 1978 ratio of payment errors due to deductions to the case error rate | 0.43 | 0.43 |
| Proportion of households reporting shelter costs whose benefits are affected by excess shelter deduction error | 0.41 | 0.41 |
| Estimated effect of eliminating the excess shelter deduction on the overpayment error rate (Product of above figures, expressed as a percent of the overpayment error rate) | 4.78 | 5.38 |

SOURCE: Congressional Budget Office.

The range of estimates shown in Table 5 should not be interpreted as a confidence interval. The lack of data cause greater uncertainty about the precision of the point estimate than reflected in this range of estimates.

The result of the analysis reported above was used in estimating the reductions in erroneous payments associated with eliminating the excess shelter deduction. Erroneous payments, both underissuances and overissuances, result from errors in reporting shelter costs and calculating the excess shelter deduction. Eliminating the deduction would eliminate those erroneous payments. CBO estimates the savings at $30 million to $35 million.

Information on causes of underpayments is not available. For purposes of this estimate it was assumed that the ratio of all overpayments to all underpayments observed in the April-to-September 1981 reporting period also applies to errors due to deductions. In this 1981 reporting period, underpayments represented 2.38 percent of benefits, while overpayments accounted for 9.75 percent of benefits.

Using this ratio, together with the estimate that the overpayment error rate would be reduced by about 5 percent, results in a net change amounting to about 0.3 percent of all benefits, which for fiscal year 1984 is between $30 million and $35 million. The base overpayment error rate assumed to be in effect during 1984 is 8.05 percent.

Primary Source of Data for this Analysis

Except when stated otherwise, the estimates of savings and the distributions of effects from proposed changes described above were made using data from the August 1981 survey of characteristics of food stamp households conducted by the Department of Agriculture. The data were adjusted where possible to incorporate changes in food stamp rules implemented since the time of data collection. Most estimates were derived by determining the level of benefits for households contained in the sample under the proposed alternative and comparing this with benefits calculated under the procedures currently in effect. Implicit in this approach is the assumption that the distributions of characteristics of participating households have not changed significantly since the time the survey data were collected. Though this assumption is not likely to be completely satisfied, more recent data are not currently available. Whether this biases the estimates, and if so in what direction, is not clear.

For additional information on the analysis contained in this memorandum, contact Roger Hitchner at 226-2820.